

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9041

INFO USMISSION EC BRUSSELS PRIORITY

AMEMBASSY BONN

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AMEMBASSY DUBLIN

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 03542

PASS TREASURY FOR PELIKAN AND EXIMBANK FOR GIANTURCO

E.O. 11652: XGDS-1

TAGS: EFIN, EEC, UK

SUBJECT: GENTLEMEN'S AGREEMENT

REF: A) STATE 47207; B) EC BRUSSELS 1974; C) LONDON 2926

SUMMARY: U.K. CONSIDERS EXPORT INSURANCE COVERAGE SCHEMES

HAD BEEN LEFT OUT GENTLEMEN'S AGREEMENT, WITH

EXISTENCE OF FRENCH AND ITALIAN SCHEMES WELL KNOWN. U.K.

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SCHEME DOES NOT COME CLOSE TO FRENCH MEASURES IN COVERAGE.

IF U.S. MAKES MAJOR ISSUE OF U.K. EXPORT INFLATION RISK COVERAGE SCHEME IN CONTEXT OF GENTLEMEN'S AGREEMENT, THE CONCLUSION IN U.K. AND ELSEWHERE IN EC WOULD BE THAT U.S. IS NOT IN EARNEST ABOUT CONCLUDING A GENTLEMEN'S AGREEMENT, AND IS SEEKING AN EXCUSE TO WITHDRAW FROM THE NEGOTIATIONS. END SUMMARY.

1. FINANCIAL ATTACHES DISCUSSED POINTS OUTLINED IN REFTEL A WITH HESTER BOOTHROYD, UNDER SECRETARY (DEVELOPMENT), AND JOAN KELLEY, ASSISTANT SECRETARY (FINANCE-EXPORTS), OF H.M. TREASURY AND DEREK SMITH, UNDER SECRETARY, EXPORT CREDITS GUARANTEE DEPARTMENT. U.S. WOULD WELCOME ANY ADDITIONAL U.K. COMMENTS ON THE COST INFLATION COVERAGE SCHEME. HOWEVER, INITIAL U.S. REACTION IS THAT IMPOSITION OF U.K. SCHEME INCONSISTENT WITH THE OBJECTIVES OF THE DISCUSSIONS AND UNDERMINED THE PRINCIPLES OF THE NEGOTIATIONS. HMG OFFICIALS RECONFIRMED POINTS MADE IN EARLIER DISCUSSIONS THAT MOST STAFF LEVEL PERSONNEL WERE NOT IN FAVOR OF THE SCHEME BUT HAD BEEN OVERRULED AT HIGH POLITICAL LEVEL, BUT THEIR BASIC REJOINDER WAS THAT IF U.S. MADE MAJOR ISSUE OF U.K. EXPORT INFLATION RISK COVERAGE IN CONTEXT OF GENTLEMEN'S AGREEMENT, THE CONCLUSION IN U.K. AND ELSEWHERE IN EC WOULD BE THAT US IS NOT IN EARNEST ABOUT CONCLUDING A GENTLEMEN'S AGREEMENT, AND IS SEEKING AN EXCUSE TO WITHDRAW FROM THE NEGOTIATIONS.

2. DEREK SMITH, WHO HAD JUST RETURNED FROM 2-1/2 DAYS OF DISCUSSIONS ON THE GENTLEMEN'S AGREEMENT WITH EC PARTNERS IN BRUSSELS, STATED THAT HE DID NOT FEEL THE PROSPECTS FOR A CONCLUSION OF THE GENTLEMEN'S AGREEMENT WERE ANY CLOSER NOW THAN THEY HAD BEEN OVER THE PAST SEVERAL MONTHS. THIS WAS NOT DUE TO THE INTRODUCTION OF THE BRITISH COST INFLATION COVERAGE SCHEME, BUT PRIMARILY BECAUSE OF THE CURRENT U.S. POSITION ON THE GENTLEMEN'S AGREEMENT. SMITH STATED THAT EARLY IN THE NEGOTIATIONS, THE U.S. AS WELL AS OTHERS, HAD AGREED THAT SUCH SCHEMES WOULD BE DISREGARDED IN CONNECTION WITH THE GENTLEMEN'S AGREEMENT. THE FRENCH AND ITALIAN SCHEMES HAD BEEN DISCUSSED AT EARLIER MEETINGS AND UNDERSTANDING HAD BEEN CONFIDENTIAL

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REACHED THAT FOR THE PURPOSES OF THE GENTLEMEN'S AGREEMENT DISCUSSIONS WOULD BE LIMITED TO A RESTRICTED DELINEATED AREA, AND SUCH SCHEMES WOULD BE LEFT ASIDE TO BE HANDLED AT A LATER DATE. AS TO THE U.K. SCHEME ITSELF, THE TIMING WAS BAD, BUT SMITH EMPHASIZED THAT THE BRITISH FELT THEIR SCHEME SHOULD NOT BE VIEWED AS DETRIMENTAL TO THE AGREEMENT, FOR NOT ONLY IS IT MORE STRINGENT THAN EITHER THE FRENCH OR ITALIAN SCHEMES BUT IT IS NO MORE RELEVANT

TO THE DISCUSSIONS THAN EITHER OF THE AFORE, OR U.S.
LONG-TERM CHEAP ARMS SALES OR THE DISC.

3. SMITH CONTINUED THAT IF THE U.S. INSISTS ON MAKING AN
ISSUE OUT OF THE U.K. SCHEME, THAT HE AND OTHER EC MEMBERS
WOULD VIEW THIS AS EVIDENCE THAT THE U.S. WAS IN FACT NOT
SERIOUS ABOUT THE GENTLEMEN'S AGREEMENT AND WOULD SIMPLY
BE USING THIS ISSUE AS AN EXCUSE TO WITHDRAW. SMITH
STATED THAT THERE ARE THREE MAIN POINTS WHICH ARE AT THE
CORE OF THE GENTLEMEN'S AGREEMENT DISCUSSIONS. ONE, THE

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LEVEL OF INTEREST RATES; TWO, THE ABSENCE OF A 5-YEAR CREDIT LIMIT FOR COUNTRIES WITH PER CAPITA INCOME IN EXCESS OF \$3,000 IN THE U.S. TEXT; AND THREE, THE TREATMENT OF EXCEPTIONS FOR MAJOR PROJECTS. THESE POINTS ARE WHAT THE AGREEMENT IS ABOUT. THE CURRENT U.S. POSITION ON THESE THREE POINTS ALREADY LEADS SOME TO QUESTION WHAT SMITH CHARACTERIZED AS LACK OF U.S. SERIOUSNESS ABOUT THE GENTLEMEN'S AGREEMENT. THE ONGOING LACK OF AGREEMENT ON THESE THREE POINTS, SMITH STATED, IS THE ROOT OF THE DIFFICULTY BETWEEN THE EEC, U.S. AND JAPAN IN REACHING AGREEMENT. THE INJECTION OF AN ADDITIONAL ADVERSE ELEMENT INTO CONFIDENTIAL

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THE DISCUSSIONS WOULD CERTAINLY MEAN THE DOWNFALL OF THE NEGOTIATION. AGREEMENT ON THESE THREE POINTS WILL REQUIRE EFFORTS TO THE LIMITS OF HUMAN ENDEAVOUR. ADDING A STRONG NEGATIVE STAND BY THE U.S. ON THE BRITISH SCHEME WILL CERTAINLY KILL ANY HOPES OF A SUCCESSFUL AGREEMENT. KELLEY AGREED WITH SMITH'S POINTS THROUGHOUT THE DISCUSSIONS.

4. BOTH DEREK SMITH AND JOAN KELLEY WILL BE ATTENDING THE PARIS MEETINGS NEXT WEEK. ALTHOUGH DEFINITE TRAVEL PLANS HAVE NOT BEEN MADE, SMITH ANTICIPATES ARRIVING ABOUT 2:30 P.M. AND JOAN KELLEY WILL MOST LIKELY ARRIVE SOME TIME IN THE MORNING OF MARCH 12. EITHER OR BOTH WOULD BE AVAILABLE AND WOULD WELCOME A DISCUSSION WITH PELIKAN PRIOR TO THE MEETINGS, WHICH WE UNDERSTAND ARE TO BEGIN AT 5:00 P.M. BASED ON BRUSSELS 1974, THEY WILL BE THE OFFICIALS THAT WILL ATTEND LUNCHEON ON MARCH 12, BUT THEY WERE UNAWARE OF IT DURING OUR CONVERSATION.

5. LOOKING TO SUBSTANCE OF NEXT WEEK'S DISCUSSIONS, SMITH AND KELLEY HOPED U.S. AND EC COULD AVOID MUTUAL RECRIMINATIONS OVER MATURITIES. ACCORDING TO SMITH, THE FRENCH ARE NOT ANXIOUS FOR THE AGREEMENT TO SUCCEED. THEY WILL SEIZE ON ANY RECRIMINATIONS TO COMPLICATE ISSUES. U.K. CONSIDERS FRENCH WOULD NOT REFUSE TO PARTICIPATE, BUT WOULD RATHER AIM AT MAKING AGREEMENT VERY COMPLEX AND COMPLICATED, FLEXIBLE, QUOTE ALMOST OPAQUE UNQUOTE, THEREBY VITIATING ITS IMPACT ON DOWNPAYMENTS, SUBSIDY ELEMENT, LOCAL COSTS, AND MATURITIES. IT IS ON THESE POINTS AND GENERAL NEGOTIATING POSTURE THAT U.K. TEAM HOPES TO SEE PELIKAN NEXT WEEK. SMITH AND KELLEY ADDED U.S. SUGGESTIONS FOR SEPARATE MEETINGS WITH LARGER EC COUNTRIES AND JAPAN HAD BEEN MALADROIT, CREATING RESENTMENT FROM SMALLER EC COUNTRIES AND GIVING IMPRESSION U.S. CONSIDERED ITSELF A PRIMUS INTER PARES. THERE HAD EVEN BEEN AN INCREDIBLE DISCUSSION PROVOKED BY FRENCH ON WHETHER OR NOT TO ACCEPT INVITATION TO MEET IN OFFICIAL U.S. BUILDING, WHICH TECH-

NICALLY WOULD BE U.S. SOIL AND THEREFORE INAPPROPRIATE AS
A VENUE.

6. COMMENT: RE SUBJECT HEADING OF STATE 47207, WHILE WE
AGREE BRITISH PLAN IS INCONSISTENT WITH SPIRIT AND OBJEC-
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TIVES OF EXPORT CREDIT NEGOTIATIONS, IT IS NOT TECHNI-
CALLY AN EXPORT CREDIT ACTION OR IN ANY WAY CONFINED OR
TIED TO CREDIT TERMS, BUT RATHER CONTAINS AN ELEMENT OF
SUBSIDY. WE SEE IT MORE AS A TRADE MEASURE THAN AN EXPORT
CREDIT MEASURE. IN FACT, GREATER COVERAGE (90 PERCENT VS
85 PERCENT) OF COST INFLATION IS PROVIDED FOR CASH CON-
TRACTS. A KEY POINT ABOUT BRITISH EXPORT INSURANCE PLAN
TO WHICH WE HAVE NOT PREVIOUSLY CALLED ATTENTION (PROBABLY
BECAUSE WE THOUGHT IT SELF-EVIDENT) IS THAT PREMIUMS AS
PROVISIONALLY SET AT 1 PERCENT CAN HARDLY MEET COSTS WITH
INFLATION RUNNING ANYWHERE NEAR PRESENT OR ANTICIPATED

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RATES. IT SEEMS TO US THAT FRENCH SCHEME DATING FROM MID-SIXTIES MAY AT LEAST AT THAT TIME HAVE BEEN MORE OR LESS SELF-BALANCING (COSTS MET BY PREMIUMS) AND HENCE BASICALLY AN INSURANCE AGAINST UNUSUAL FLUCTUATIONS RATHER THAN A CLEAR SUBSIDY AND MAY HAVE BEEN MORE OR LESS IGNORED IN GATT AND OECD FOR THIS REASON. AT CURRENT RATES OF COST INFLATION AND WITH LOW PREMIUM, HOWEVER, THIS WOULD NOT BE THE CASE. A FINNISH COLLEAGUE IN LONDON WITH WHOM WE DISCUSSED CASE SAYS FINLAND HAS SIMILAR SCHEME, BUT HE UNDERSTANDS PREMIUMS DO BALANCE COSTS.

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WE WOULD AGREE WITH MRS. ARCHIBALD'S OPINION THAT U.K. CANNOT EASILY WITHDRAW ITS SCHEME, WHICH WAS FORCED THROUGH AT HIGH POLITICAL LEVELS OUTSIDE OF H.M. TREASURY AND ECGD, I.E., BY PETER SHORE IN MINISTRY OF TRADE. FLOGGING U.K. OFFICIALS AT GENTLEMEN'S AGREEMENT SESSION FOR INTRODUCTION OF MEASURES IMPOSED ON THEM BY OTHERS IS NOT LIKELY TO YIELD BENEFITS. THEY ALREADY KNOW OUR VIEWS AND ARE SYMPATHETIC TO THEM. WE WOULD SUGGEST POSITION MORE LIKELY TO GET OUR VIEWS TO PETER SHORE IS THROUGH OECD AND GATT.

SINCE ABOVE DRAFTED, WE NOTE ARTICLE DATED IN BRUSSELS BY DAVID CURRY IN FRIDAY FINANCIAL TIMES, "EXPORT CREDIT PACT AT RISK," CITING U.S. GOVERNMENT ANGER AT EXPORT INSURANCE SCHEME AND CHEAP CREDITS TO USSR, AND EC COMMISSION FEARS THAT ECGD IS INCREASINGLY BEING SUCKED INTO ORBIT OF DEPARTMENT OF TRADE. ANTI-EC BEHAVIOR AND VIEWS OF TRADE MINISTER SHORE ALSO CITED.

RICHARDSON

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